

# Impact of Profitability on Growth Performance of the Select Private Life Insurance Companies in India

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## ABSTRACT

Profit does not only improve upon insurers' solvency state but it also plays an essential role in persuading policyholders and shareholders to supply funds to insurance firms. Without profits no insurer can attract outside capital to meet its set objectives in this ever changing and competitive globalized environment. Therefore, one of the objectives of management of insurance companies is to attain profit as an underlying requirement for conducting any insurance business. Life insurers are custodians and managers of substantial investments of individuals; and policyholders need to be confident that their insurer will be able to meet its promised liabilities in the event that claims are made under a policy. The insurers can meet their promises toward policy holders when they have good financial health and earning sufficient profits. Growth of life insurance companies is possible only if they have the ability to earn the sufficient profit. Hence Impact of Profitability on Growth Performance of the Selected Private Life Insurance Companies is the main objective of this paper. For this, three profitability variables viz., return on equity, return on asset, net investment income have been selected and on the other side, total premium income as growth factor has been

selected. The relationship of the profitability and growth performance has been identified through Pearson correlation analysis and multiple regression analysis.

**Keyword: Profitability, Growth, Impact of profitability on growth**

## INTRODUCTION

The Life Insurance Company is a key sector of any economy and is an integral part of the financial system responsible for handling both individual and institutional risks. Life Insurance Companies assist as the foundation of risk management in India; they guarantee financial safety, serve as an energetic constituent in the chain of financial intermediation, and make an avenue for long term funds for infrastructural schemes. It is necessary that Life insurance companies operate with profitability, consequently that the whole system can get the required development, taking into consideration the structure of the financial system in India and the challenges faced by the life insurance companies during the process of the growth performance of the financial nonbank system. Measuring the financial performance of the insurance market and the factors affecting its performance is a very stimulating topic to insurers. Profitability on growth performance is

one of the most important objectives of financial management, since one of the main tasks and goals of financial management is to increase shareholders wealth on life insurance companies.

### REVIEW OF LITERATURE

**Charumathi (2012)** in her study on, “The Determinants of profitability of Indian life insurers – Analytical study” has an objective to model the factors that determine the profitability of Indian life insurers.. From the study, it is observed that size and liquidity are positively and significantly related with profitability whereas the leverage, premium growth and equity capital are negatively associated with profitability and it is found that there is no relationship between underwriting risk and profitability

**Prabakaran and Velmurugan (2012)** in their study on “An analysis of the growth of life insurance Corporation of India (LIC) – In the context of Post liberalization Era” made an attempt to analyze the growth of life insurance Corporation of India during the post liberalization Era. They disclose that number of policies sold by LIC of India has been increase year wise is spite of heavy competition in Indian insurance industry except in the year 2007 – 08 and first year premium LIC of India has registered significant growth except in the years 2006 -2007.

**Anirban Sarkar (2013)** in his study on, “Performance Assessment of General Insurance Business in India (2003-2013)” analyzes the profitability of the private sector companies from the year 2003 to 2013. From the study it is observed that expenses ratio, net retention ratio, return on equity ratio had a significant association

with profitability.

### OBJECTIVE OF THE STUDY

- To analyse the impact of profitability on growth of select private life insurance companies in India

### RESEARCH METHODOLOGY

#### Research Design

The study is purely based on secondary data which have been collected through CMIE Prowess Data software. The study considers the top ten private life insurance companies in India in order to examine the impact of profitability on Growth for a period of eleven years starting from 2007-08 to 2016-17. The collected data have been evaluated by using the statistical tools like Correlation Analysis and multiple regression analysis.

### RESULTS AND DISCUSSION

#### Impact of Profitability on Growth Performance of the Life Insurance Companies (Correlation Analysis)

Pearson Correlation analysis is used to analyse linear relationship between the given data set. This analysis has been analyses to examine the relationship between the selected growth variables (Total Premium Income) and profitability variables (Return on Equity, Return on Asset, Net Investment Income) reason for taken these variables as the variables are the measurement factors of profitability of the private life insurance companies. The result of the correlation analysis helps to identify how the profitability variables have influenced the growth variable. The results are discussed in the following table.

**Table 1.1 Degree of Relationship of Profitability Variables on Growth – Correlation Analysis**

Variables	HDFC		MaxNY		ICICI		BSL		TALIC	
	'r' Value	'p' Value	'r' Value	'p' Value	'r' Value	'p' Value	'r' Value	'p' Value	'r' Value	'p' Value
Return on Equity	0.320	0.310 NS	0.827	0.001*	0.084	0.795 <sup>NS</sup>	0.129	0.689 NS	0.014	0.966 NS
Return on Asset	0.080	0.804 <sup>NS</sup>	0.697	0.012**	-	0.085	0.114	0.725 NS	-	0.848 NS
Net Investment Income	0.962	0.000*	0.574	0.051 <sup>NS</sup>	0.729	0.007*	0.404	0.193 NS	0.542	0.069 NS

**Table 1.1 (Continue) Degree of Relationship of Profitability Variables on Growth – Correlation Analysis**

Variables	SBI		ING Vysya		BAL		MI		AVIVA	
	'r' Value	'p' Value								
Return on Equity	0.265	0.405 NS	-	0.647 NS	-	0.980 NS	0.844	0.001*	-	0.167 NS
Return on Asset	0.178	0.580 NS	0.468	0.125 NS	-	0.440 NS	0.520	0.083 NS	-	0.172 NS
Net Investment Income	0.969	0.000*	0.856	0.000*	0.194	0.546 NS	0.879	0.000*	0.067	0.837 NS

The above correlation analysis has clearly revealed the relationship between the growth variables and the profitability variables. While seeing the results of HDFC life insurance, ICICI, SBI and ING Vysya life insurance the variable net investment income has positively associated with the total premium income. In MaxNY life insurance and MetLife India Life insurance the variables return on equity and return on asset are having positive significant association with the total premium income.

On the other hand, in the case of Birla Sun life insurance, Tata AIG life insurance, Bajaj Allianz life insurance, Aviva life insurance, there are no profitability variables influenced the growth

variable total premium income. It reveals that the selected profitability variables do not have any influence on the company’s growth.

**Impact of Profitability on Growth Performance of the Life Insurance Companies (Regression Analysis)**

The relationship between the selected independent variables and the dependent variable net investment income has been found by using stepwise multiple regression analysis. The proposed model is presented as below. The result of the regression between the independent and dependent variables is discussed in the following table.

**The Model:**

Total Premium Income= a + b<sub>1</sub> (Return on Equity) + b<sub>2</sub> (Return on Asset)+ b<sub>3</sub> (Net Investment Income)

The above proposed model has been analysed by using stepwise multiple regression analysis and the results are discussed in the following table.

**Table 1.2 Impact of Profitability on Growth Performance of the Life Insurance Companies – Multiple Regression Analysis**

Variables	HDFC		MaxNY		ICICI		BSL		TALIC	
	Co-efficients	't' Value ('p' Value)	Co-efficients	't' Value ('p' Value)	Co-efficients	't' Value ('p' Value)	Co-efficients	't' Value ('p' Value)	Co-efficients	't' Value ('p' Value)
Constant	4771.8		6273.7		11618.4		5752.9		917.0	
Return on Equity	-7055.8	0.381 (0.713 <sup>NS</sup> )	47878.9	5.989 (0.000)	14802.9	0.623 (0.551 <sup>NS</sup> )	-5229.4	-0.249 (0.810 <sup>NS</sup> )	-2314.9	-0.236 (0.819 <sup>NS</sup> )
Return on Asset	3979.7	0.277 (0.789 <sup>NS</sup> )	-18262.5	-4.563 (0.002*)	-6183.1	-0.969 (0.361 <sup>NS</sup> )	1687.0	0.234 (0.821 <sup>NS</sup> )	-628.7	-0.208 (0.841 <sup>NS</sup> )
Net Investment Income	4771.8	8.732 (0.000*)	0.047	0.599 (0.566)	0.382	2.681 (0.028)	0.141	1.108 (0.300 <sup>NS</sup> )	0.664	2.420 (0.042 <sup>NS</sup> )
<b>R<sup>2</sup> Value</b>	<b>0.928</b>		<b>0.915</b>		<b>0.831</b>		<b>0.759</b>		<b>0.843</b>	
<b>F Value</b>	<b>34.133</b>		<b>28.878</b>		<b>4.553</b>		<b>3.559</b>		<b>22.489</b>	
<b>'p' Value</b>	<b>0.000*</b>		<b>0.000*</b>		<b>0.038**</b>		<b>0.022**</b>		<b>0.000*</b>	

Table 1.2 (Continue)

Variables	SBI		INGVysya		BAL		MI		AVIVA	
	Co-	't'	Co-	't'	Co-	't'	Co-	't'	Co-	't'

	efficie nts	Valu e ( <b>'p'</b> Valu e)	efficie nts	Value ( <b>'p'</b> Value )	efficie nts	Value ( <b>'p'</b> Value )	efficie nts	Value ( <b>'p'</b> Value )	efficie nts	Value ( <b>'p'</b> Value )
Constan t	3450.2		1572.4		16115. 1		2664.9		1573.5	
Return on Equity	- 7666.6	-562 (0.58 9 <sup>NS</sup> )	- 2501.2	-3.866 (0.005 )	50196. 0	4.748 (0.001 *)	31131. 9	2.162 (0.063 NS)	- 3629.8	-0.533 (0.609 NS)
Return on Asset	-121.5	-0.11 (0.99 2 <sup>NS</sup> )	1105.6	2.666 (0.029 **)	- 21663. 6	-5.034 (0.001 *)	- 15277. 7	-1.723 (0.123 NS)	158.2	0.126 (0.903 NS)
Net Investm ent Income	0.662	11.1 09 (0.00 0)	0.425	3.896 (0.005 )	-0.357	-2.197 (0.059 NS)	0.387	2.658 (0.029 )	0.268	0.794 (0.450 NS)
<b>R<sup>2</sup> Value</b>	<b>0.943</b>		<b>0.909</b>		<b>0.771</b>		<b>0.864</b>		<b>0.743</b>	
<b>F Value</b>	<b>44.506</b>		<b>26.529</b>		<b>9.002</b>		<b>16.916</b>		<b>6.855</b>	
<b>'p' Value</b>	<b>0.000*</b>		<b>0.000*</b>		<b>0.006*</b>		<b>0.001*</b>		<b>0.012**</b>	

The multiple linear regression co-efficient is found to be statistically fit. Among the three variables, net investment income has perfect influence on total premium income in HDFC Standard Life Insurance Company Limited, ICICI Prudential life Insurance Company Limited, SBI Life Insurance Company Limited and Metlife India Insurance Company Limited. The multiple linear regression co-efficient is found to be statistically fit .Among the three variables, return on equity has positive influence and return on asset has negative influence on total premium income in Max New York Life Insurance Company Limited,

There are no variables having any influence on total premium income in Birla Sun Life Insurance Company Limited, Tata AIG Life Insurance Company Limited and AVIVA Life Insurance Company Limited.The variables return on equity and return on asset have highly influenced the total premium income in Bajaj Allianz Life Insurance Company Limited.All the three variables return on equity, return on asset and net investment income have highly influenced the total premium income in ING Vysya Life Insurance Company Limited.

**Degree of Relationship of Selected Independent Variables with Total Premium Income (Correlation Analysis)**

Correlation coefficients are used to measure the degree of relationship of the selected variables with total premium income which measure the impact of profitability variables on growth performance of the selected private sector life insurance companies. In this research, one variable is selected from growth performance ie., total premium income and eleven variables have taken from profitability viz. size, operating ratio, underwriting risk, volume of capital, net earnings

ratio, expense ratio, claim ratio, debt ratio, current ratio, net operating expenses ratio and tangibility of assets. The existence of a high degree of correlation implies the interdependence of the set of variables upon each other in such a way that changes in the one is in sympathy with changes in the other. Further, the result of the correlation analysis helps to identify what extent the selected independent variables predict the variable total premium income. For this purpose, the result of the correlation between the selected variables is discussed in the following table.

**Table 1.3 Degree of Relationship of Selected Variables with Total Premium Income – Correlation Analysis**

No.	Variables	HDFC		MaxNY		ICICI		BSL		TALIC	
		'r' Value	'p' Value								
1	Size	0.977	0.000	0.918	0.000	0.871	0.000	0.569	0.053	0.609*	0.036
2	Operating Ratio	-0.059	0.856	0.721	0.008	-0.048	0.882	0.095	0.769	-0.123	0.704
3	Underwriting Risk	0.846	0.001	0.787	0.002	-0.231	0.469	0.032	0.921	-0.504	0.095
4	Volume Of Capital	0.970	0.000	0.945*	0.000	0.906	0.000	0.504	0.095	0.155	0.630
5	Net Earnings Ratio	-0.082	0.800	0.691	0.013	-0.075	0.817	0.095	0.769	-0.130	0.687
6	Expense Ratio	-0.655*	0.021	-0.894	0.000	-0.569	0.053	-0.229	0.474	0.022	0.946
7	Claim Ratio	0.019	0.953	-0.278	0.382	-0.334	0.288	0.310	0.327	-0.766	0.004
8	Debt Ratio	0.492	0.104	-0.273	0.390	-0.553	0.062	-0.310	0.326	-0.476	0.118
9	Current Ratio	-0.485	0.110	0.804	0.002	0.467	0.126	0.358	0.253	0.530	0.076
10	Net Operating Expenses Ratio	-0.507	0.093	0.213	0.506	-0.337	0.284	-0.249	0.435	0.045	0.890
11	Tangibility Of	-0.509	0.091	-0.849	0.000	-0.294	0.354	-0.272	0.392	-0.347	0.269

Assets											
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**Table 1.3 (Continue) Degree of Relationship of Selected Variables with Total Premium Income - Correlation Analysis**

No .	Variables	SBI		INGVysya		BAL		MI		AVIVA		
		'r' Value	'p' Value									
1	Size	0.846	0.001	0.501	0.097	-	0.633	0.027	0.899	0.000	-0.859	0.000
2	Operating Ratio	0.328	0.299	0.388	0.212	-	0.870	0.000	0.648	0.023	-0.489	0.107
3	Underwriting Risk	0.014	0.965	0.505	0.094	-	0.895	0.000	0.265	0.405	-0.807	0.001
4	Volume Of Capital	0.947	0.000	0.409	0.187	-	0.771	0.003	0.746	0.005	-0.320	0.310
5	Net Earnings Ratio	0.309	0.329	-	0.392	-	0.834	0.001	0.648	0.023	-0.403	0.194
6	Expense Ratio	-	0.808	0.001	0.244	0.445	0.449	0.143	0.623	0.030	0.633	0.027
7	Claim Ratio	0.681	0.015	0.862	0.000	0.162	0.614	0.887	0.000	0.073	0.821	
8	Debt Ratio	-	0.478	0.116	0.470	0.123	0.693	0.012	0.754	0.005	0.335	0.288
9	Current Ratio	0.462	0.130	0.639	0.025	0.635	0.026	0.741	0.006	-0.495	0.101	
10	Net Operating Expenses Ratio	-	0.535	0.073	0.132	0.682	0.289	0.362	0.548	0.065	0.593 *	0.042
11	Tangibility Of Assets	-	0.324	0.304	0.435	0.158	0.644	0.024	0.318	0.313	0.839	0.001

The above table observed that correlation between the total premium income of the selected life insurance companies and selected eleven independent variables are influenced by the total premium income of the companies. In the case of HDFC Standard Life Insurance Company Limited, it is noted that among the eleven selected variables, three variables viz., size of the company, underwriting risk and volume of capital are having positive significant association with total premium income. On the other hand, the variable expense ratio has negative significant association with total premium income.

The result of Max New York Life Insurance Company Limited revealed that the variables size, operating ratio, underwriting risk, volume of capital, net earnings ratio and net operating expenses ratio are having positive significant association and, expense ratio and tangibility of assets are having negative significant association with total premium income of the company.

**Relationship between the Selected Independent and Dependent Variable Total Premium Income (Multiple Regression Analysis)**

The relationship between the selected independent variables and the dependent variable total premium income has been found by using stepwise multiple regression analysis. The proposed model is presented as below. The result of the regression between the independent and dependent variables is discussed in the following table.

**Total Premium Income**=a + b<sub>1</sub> (Size) + b<sub>2</sub> (Operating Ratio)+ b<sub>3</sub> (Underwriting Risk)+ b<sub>4</sub> (Volume Of Capital) + b<sub>5</sub> (Net Earnings Ratio)+ b<sub>6</sub> (Expense Ratio)+ b<sub>7</sub> (Claim Ratio) + b<sub>8</sub> (Debt Ratio)+ b<sub>9</sub> (Current Ratio)+ b<sub>10</sub> (Net Operating Expenses Ratio)+ b<sub>11</sub> (Tangibility Of Assets). The above proposed model has been analysed by using stepwise multiple regression analysis and the results are discussed in the following table

**The Model:**

**Table 5.4 Degree Of Relationship Of Selected Independent Variables With Total Premium Income - Multiple Regression Analysis**

Variables	HDFC		MaxNY		ICICI		BSL		TALIC	
	Co-efficients	't' Value ('p' Value)	Co-efficients	't' Value ('p' Value)	Co-efficients	't' Value ('p' Value)	Co-efficients	't' Value ('p' Value)	Co-efficients	't' Value ('p' Value)
Constant	3054.9		-1409.8		-7908.9		1759.659		4353.4	
Size	6.101	17.273 (0.000)	Excluded		Excluded		0.771	11.529 (0.000)	Excluded	
Operating Ratio	Excluded		Excluded		Excluded		Excluded		Excluded	
Underwriting Risk	Excluded		Excluded		Excluded		Excluded		-1260.5	-3.114 (0.012**)
Volume of capital	Excluded		3.106	9.175 (0.000*)	4.737	12.278 (0.000*)	Excluded		Excluded	
Net earnings ratio	Excluded		Excluded		Excluded		Excluded		Excluded	
Expense ratio	Excluded		Excluded		Excluded		Excluded		Excluded	
Claim ratio	Excluded		Excluded		Excluded		Excluded		Excluded	
Debt ratio	Excluded		Excluded		Excluded		Excluded		Excluded	
Current Ratio	-4429.9	-2.810 (0.023)	Excluded		8264.1	4.833 (0.001*)	90.178	4.006 (0.003*)	-322.2	-4.976 (0.001*)
Net operating expenses ratio	Excluded		Excluded		Excluded		Excluded		Excluded	
Tangibility of assets	22246.5	2.487 (0.038)	Excluded		Excluded		Excluded		Excluded	
<b>R Value</b>	<b>0.993</b>		<b>0.945</b>		<b>0.975</b>		<b>0.971</b>		<b>0.895</b>	
<b>R<sup>2</sup> Value</b>	<b>0.986</b>		<b>0.894</b>		<b>0.950</b>		<b>0.943</b>		<b>0.801</b>	
<b>F Value</b>	<b>191.806</b>		<b>84.176</b>		<b>85.424</b>		<b>74.012</b>		<b>18.127</b>	
<b>'p' Value</b>	<b>0.000*</b>		<b>0.000*</b>		<b>0.000*</b>		<b>0.000*</b>		<b>0.001*</b>	

**Table 5.4 (Continue)**

Variables	SBI	ING Vysya	BAL	MI	AVIVA
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	Co-efficients	t Value ('p' Value)	Co-efficients	t Value ('p' Value)	Co-efficients	t Value ('p' Value)	Co-efficients	t Value ('p' Value)	Co-efficients	t Value ('p' Value)	
Constant	25978.7		2362.709		13675.5		1881.9		4144.9		
Size	Excluded		Excluded		Excluded		2.645	6.483 (0.000*)	-3.180	-3.757 (0.005*)	
Operating Ratio	Excluded		33.887	5.066 (0.001)	Excluded		Excluded		Excluded		
Underwriting Risk	Excluded		Excluded		-4764.6	-6.330 (0.000)	Excluded		-656.7	-2.900 (0.018)	
Volume of capital	1.973	7.832 (0.000)	Excluded		Excluded		Excluded		Excluded		
Net earnings ratio	Excluded		Excluded		Excluded		Excluded		Excluded		
Expense ratio	-148822.5	-3.461 (0.007)	Excluded		Excluded		Excluded		Excluded		
Claim ratio	Excluded		Excluded		Excluded		Excluded		Excluded		
Debt ratio	Excluded		Excluded		Excluded		Excluded		Excluded		
Current Ratio	Excluded		-850.81	-	10.289 (0.000)	Excluded		Excluded		Excluded	
Net operating expenses ratio	Excluded		Excluded		Excluded		Excluded		Excluded		
Tangibility of assets	Excluded		Excluded		Excluded		Excluded		Excluded		
<b>R Value</b>	<b>0.978</b>		<b>0.966</b>		<b>0.895</b>		<b>0.899</b>		<b>0.930</b>		
<b>R<sup>2</sup> Value</b>	<b>0.956</b>		<b>0.933</b>		<b>0.800</b>		<b>0.808</b>		<b>0.864</b>		
<b>F Value</b>	<b>97.019</b>		<b>63.123</b>		<b>40.064</b>		<b>42.034</b>		<b>28.700</b>		
<b>'p' Value</b>	<b>0.000*</b>		<b>0.000*</b>		<b>0.000*</b>		<b>0.000*</b>		<b>0.000*</b>		

It is found from the analysis that the variables size and tangibility of assets are having positive association in HDFC Standard Life Insurance Company Limited. Volume of capital is having positive association in Max New York Life Insurance Company Limited. Volume of capital and current ratio are having positive association in ICICI Prudential life Insurance Company Limited. Size and current ratio is having positive association in Birla Sun Life Insurance Company

Limited. Volume of capital is having positive association and expense ratio is having negative association in SBI Life Insurance Company Limited. Operating ratio and current ratio are having positive association in ING Vysya Life Insurance Company Limited. Variable underwriting risk is having negative association in Bajaj Allianz Life Insurance Company Limited. Size is having positive association in Metlife India Insurance Company Limited. Variable size and

underwriting risk are having negative association in AVIVA Life Insurance Company Limited.

### CONCLUSION

This paper has cleared explained about the impact of profitability of the selected life insurance companies on their growth performance in India. Also, this paper has identified what extend the profitability factors has affected the growth performance of the selected life insurance companies in India. For this, three profitability variables viz., return on equity, return on asset, net investment income have been selected and on the other side, total premium income as growth factor has been selected. The relationship of the profitability and growth performance has been identified through Pearson correlation analysis and multiple regression analysis.

For examining the degree of relationship between the profitability and growth performance correlation analysis has employed. The profitability variable return on equity has constantly influenced the growth performance of the life insurance companies Max New York Life Insurance Company Limited and Metlife India Insurance Company Limited. The growth performance has completely changed with the influence of the profitability factor 'return on asset' of only one company Max New York Life Insurance Company Limited. The growth factor 'total premium income' has highly affected by the profitability factor 'net investment income' of the companies HDFC Standard Life Insurance Company Limited, ICICI Prudential life Insurance Company Limited, SBI Life Insurance Company Limited, ING Vysya Life Insurance Company

Limited and Metlife India Insurance Company Limited.

The extend of influence of every profitability factor on the growth factor 'total premium income', multiple regression analysis has employed. First of all, the model is highly fitted for all the companies with the evident of  $R^2$  and Significant F Value. In HDFC Standard Life Insurance Company Limited, the profitability factor 'net investment income' has significantly affected the 'total premium income' with the positive manner. The variable 'Return on Equity' has positive significant influence and the variable 'Return on Asset' has negative significant influence on Total premium income of the Max New York Life Insurance Company Limited. While seeing results of ICICI Prudential life Insurance Company Limited, net investment income is positive significant influence on total premium income of the company. The result of SBI Life Insurance Company Limited showed that the profitability variable net investment income is having positive significant association on total premium income of the company. Surprisingly, all the three profitability variables are having significant association on total premium income of ING Vysya Life Insurance Company Limited. Among the three, return on equity has negative significant association and return on asset, net investment income of the company has positive significant association on total premium income. While seeing the results of Bajaj Allianz Life Insurance Company Limited, the variable return on equity has positive significant association and the variable return on asset has negative significant association on total premium income of

the company. The variable net investment income has positive significant association on total premium income of the company Metlife India Insurance Company Limited. Unfortunately, even though model has fitted significantly, no variables are having any significant influence on total premium income of the life insurance companies Birla Sun Life Insurance Company Limited, Tata ALG Life Insurance Company Limited and AVIVA Life Insurance Company Limited. It indicates the growth variable 'total premium income' of the companies does not have any influence by the selected three profitability variables.

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